CLEVELAND PUBLIC LIBRARY
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CORPORATION FILE

# ANNUAL REPORT
## OF
# SAFEWAY STORES
## INCORPORATED

YEAR ENDED
DECEMBER 31st
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BOARDS
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SAFEWAY STORES
INCORPORATED
Geographical Distribution of Stores
Alberta
40 stores
Saskatchewan
35 stores
British Columbia
74 stores
Canada
205 stores
Manitoba
52 stores
Ontario
4 stores
Washington
214 stores
Montana
45 stores
Oregon
173 stores
Idaho
36 stores
Wyoming
24 stores
South Dakota
1 store
Nevada
11 stores
Nebraska
92 stores
Iowa
8 stores
California
1015 stores
Utah
41 stores
Colorado
147 stores
Kansas
76 stores
Missouri
74 stores
Arizona
50 stores
New Mexico
27 stores
Oklahoma
116 stores
Arkansas
35 stores
Texas
166 stores
Total number of stores
as of December 31, 1939
2859 stores
Total U. S. A.
2654 stores
Maryland
31 stores
District of Columbia
185 stores
Virginia
87 stores
130°
120°
110°
100°
90°
50°
45°
40°
35°
30°
25°
20°

# Annual Report of President to Stockholders

The report of the operations of your company and its subsidiaries for the year 1939, including Consolidated Balance Sheet, Profit and Loss Account, and Surplus Accounts, is submitted herewith.

## Sales and Profits

Net sales in 1939 amounted to $385,882,083.00, an increase of $17,627,091.72, or 4.79%, as compared with 1938.

The consolidated net income for the year 1939 after income taxes, interest charges, and adequate depreciation, but before preferred dividends, amounted to $6,268,360.45, as compared with $4,206,781.13 in 1938. Preferred dividends amounting to $936,075.75 were paid during the year. Dividend requirements on the average amount of seven percent, six percent, and five percent preferred stock outstanding during the year were earned 6.69 times. After the payment of preferred dividends the earnings of the company applicable to common stock were $5,332,284.70, or at the rate of $6.61 per share on 806,559 shares, the average number of common shares outstanding during the year.

In view of the substantial discount on Canadian dollars, which has existed since Canada entered the war, the sales, expenses, and net income of the subsidiaries operating in Canada for the fourth quarter of the year have been included in the Consolidated Profit and Loss Account on the basis of the exchange rate prevailing for Canadian dollars in terms of United States dollars on December 31, 1939. In addition, an appropriation of $649,989.34 was made from the Consolidated Earned Surplus Account to reduce the net current assets of these Canadian subsidiaries for the purpose of the Consolidated Balance Sheet included in this report, by the amount of discount prevailing at the end of the year on Canadian dollars in relation to United States dollars. A footnote to that Balance Sheet gives a summary of the assets and liabilities of the Canadian subsidiaries.

## Operations

During the year 218 stores and 279 meat markets have been added. A total of 471 stores were closed, in which were located 344 meat markets, which were of necessity also closed. In accordance with the company's policy, the expense of closing all stores vacated was charged against current earnings, and all fixtures transferred from closed stores were carried forward at the current value of usable or salable fixtures, or the depreciated book value, whichever was less. Leasehold improvements on these closed stores were charged off against current earnings. Such improvements on continuing stores are being charged off on an amortized basis. Automobile parking facilities have been provided for customers immediately adjacent to practically all stores added during the year.

It has been the consistent policy of your company to carefully select its retail locations in each community with the view of being a permanent part of the community. To secure proper locations and also limit its permanent investment in real estate, your subsidiaries have found it advantageous in numerous instances to purchase carefully selected lots and to erect store buildings thereon, and to subsequently sell them and lease them back from the purchasers.

The annual sales and the average number of stores and meat markets in operation during the past five years, are shown below:

| Years | Sales | Grocery Stores | Meat Markets Located in Grocery Stores |
|---|---|---|---|
| 1935 | $294,697,600 | 3,330 | 2,354 |
| 1936 | 346,178,061 | 3,370 | 2,490 |
| 1937 | 381,868,220 | 3,327 | 2,670 |
| 1938 | 368,254,991 | 3,227 | 2,710 |
| 1939 | 385,882,083 | 2,967 | 2,643 |

As at December 31, 1939, 2,859 stores, in which were located 2,617 meat markets, were in operation.

In addition to the retail units mentioned above, the subsidiaries of the company also operate 70 principal warehouses, 19 bakeries, 6 creameries, 6 coffee roasting plants, 3 meat distributing plants, 3 mayonnaise plants, a milk condensery, a candy and syrup factory, a jam and jelly plant, a fruit and vegetable cannery, as well as a number of smaller warehouses.

The Federal Food Stamp Plan is now in use in several cities and towns where operations are conducted. Your organization has cooperated with this plan to the fullest possible extent in the interest of agriculture and the eligible groups.

## Financial Position

The total net worth of the company and its subsidiaries as at December 31, 1939, according to the attached Consolidated Balance Sheet, was $51,075,334.32. In August, 1939, the company borrowed $14,000,000.00 from three commercial banks on notes bearing interest at the rate of 2½% per annum. The first notes in the aggregate amount of $1,200,000.00, fall due in August, 1940, and the remaining notes fall due serially from 1940 to 1946, inclusive (the notes falling due in 1946 aggregate $5,800,000.00). The proceeds of these loans were used to retire the Ten-Year 4% Sinking Fund Debentures which were then outstanding in the principal amount of $13,300,000.00. The unamortized discount and expense on the Debentures, and the premium paid on their retirement, are being written off over the life of the term bank loans, the unamortized balance at December 31, 1939, being $988,719.12.

The total current assets at the end of 1939 amounted to $47,282,507.84, while total liabilities, including the term bank loans, amounted to $25,641,752.26, or an excess of current assets over all liabilities of $21,640,755.58. The ratio of current assets to current liabilities (as stated on the Consolidated Balance Sheet) was 3.68 to 1. No bank loans were outstanding at December 31, 1939, except the term notes referred to in the preceding paragraph. The net current assets of the Canadian subsidiaries are included in the Consolidated Balance Sheet, item by item, at the exchange rate prevailing at December 31, 1939, for Canadian dollars in relation to United States dollars.

We indicate below the capital and surplus of the company, the book value of the preferred and common stock, and the earnings and dividends for the past five years. The book value of the common stock is computed without deducting the premium of $10.00 per share to which the preferred stock is entitled upon voluntary or involuntary liquidation. The number of shares outstanding at the end of each year is used in determining book values, and the average number of shares outstanding during the year in computing earnings:

| | Capital and Surplus | Net Assets Per Share of Preferred Stock | Book Value Per Share of Common Stock | Dividends Paid Per Share on Common Stock | Net Earnings Per Share on Common Stock |
|---|---|---|---|---|---|
| 1935 | $44,872,007 | 314 | 38.27 | 2.50 | 3.07 |
| 1936 | 46,759,491 | 301 | 39.18 | *3.50 | 4.03 |
| 1937 | 47,334,239 | 298 | 39.49 | *2.50 | 2.62 |
| 1938 | 48,407,475 | 314 | 41.53 | 2.00 | 4.02 |
| 1939 | 51,075,334 | 308 | 42.79 | **4.50 | 6.61 |

*Paid in part in five percent preferred stock.

**On December 20, 1939, a dividend of 2/100 of a share of five percent preferred stock was paid to common stockholders. (Your directors consider that on December 20, 1939, the market value of the five percent preferred stock was $101.50 per share, making the market value of this dividend $2.03.) Cash dividends of $2.50 were paid on the common stock during the year.

The management has continued to study the possibility of simplifying the corporate structure of the subsidiaries. However, it was not considered advisable to take any important steps in this respect during the year.

## Special Chain Store Taxes

Certain subsidiaries of the company have been and are now subject to special chain store taxes in the States of Colorado, Idaho, Iowa, Maryland, Montana and Texas. The aggregate cost of all chain store taxes during 1939 was approximately $198,000.00.

No new chain store taxes were enacted in 1939 by any state in which the organization operates. In the annual report for the year ended December 31, 1938, reference was made to a bill which has been introduced in the House of Representatives for a federal excise tax on chain stores. This bill is still pending before the House of Representatives. The basis of taxation therein proposed would impose on your company a discriminatory tax of approximately $59,000,000.00 in the third year after the date of enactment.

Your company has continued its special merchandising efforts to assist agriculture, and the personnel of the organization have continued to participate actively in community life. As in the past several years, your company has continued to spend substantial sums in public relations activities in the various states in which its subsidiaries operate.

## Personnel

As indicated in a preceding section of this report, the number of units in operation at the close of the year was 8% less than at the beginning of the year. This reduction in the number of units has not necessitated any decline in the number of employees, which remains at approximately 19,500. No change has been made in the policy of paying store and sales employees in managerial positions a share of the earnings, nor in the company's employment policies with respect to union affiliations.

Over 97% of the employees are members of the Safeway Employees' Association, which was organized seven years ago. As a major part of its activities this Association arranges for group insurance for the members. The total group insurance in force now aggregates approximately $48,750,000.00. The company's contribution for the purpose of this insurance has averaged approximately $160,000.00 annually for the past several years.

I am glad to take this opportunity to express in this public way my personal appreciation of the loyalty of the employees.

L. A. WARREN, President.

## SAFEWAY STORES, INCORPORATED (a Maryland Corporation) AND SUBSIDIARIES

### Consolidated Balance Sheet as at December 31, 1939

#### ASSETS

| | | |
|---|---|---|
| **Current Assets:** | | |
| Cash in Banks and on Hand | | $10,932,977.51 |
| Accounts Receivable—Trade, less Reserve $127,516.01 | | 2,455,400.71 |
| Government Accounts Receivable and State, County and Municipal Warrants | | 998,367.57 |
| Sundry Accounts Receivable | | 311,958.88 |
| Merchandise Inventories—at Lower of Cost or Market | | 32,583,803.17 |
| Total Current Assets | | 47,282,507.84 |
| **Prepaid Expenses:** | | |
| Rents, Taxes and Licenses | $ 308,031.87 | |
| Insurance | 75,430.59 | |
| Miscellaneous Supplies, etc. | 144,314.30 | 527,776.76 |
| **Investments and Advances:** | | |
| Security Investments—at Cost | 320,737.27 | |
| Other Investments | 255,637.03 | 576,374.30 |
| **Fixed Assets — at Cost:** | | |
| Land | 5,776,719.44 | |
| Buildings | 13,463,394.31 | |
| Store and Warehouse Fixtures and Equipment and Leasehold Improvements | 25,404,047.90 | |
| Automotive Equipment | 2,747,833.52 | |
| | 47,391,995.17 | |
| Less Reserve for Depreciation | 20,050,286.61 | 27,341,708.56 |
| Debt Discount, Redemption Premium and Expense—Balance Unamortized (Note 2) | | 988,719.12 |
| Total | | $76,717,086.58 |

#### LIABILITIES

| | | |
|---|---|---|
| **Current Liabilities:** | | |
| Notes Payable—Banks, due August 28, 1940 | | $ 1,200,000.00 |
| Accounts Payable | | 6,912,126.37 |
| State Sales Taxes | | 349,920.50 |
| Accrued Expenses | | 2,421,361.23 |
| Dividends Payable | | 236,766.75 |
| Reserve for Federal and Canadian Income Tax | | 1,721,577.41 |
| Total Current Liabilities | | 12,841,752.26 |
| Notes Payable — Banks, due 1941 to 1946 | | 12,800,000.00 |
| **Capital and Surplus:** | | |
| Preferred Cumulative Stocks, Par Value $100.00 per share (Note 3): | | |
| 7% Authorized and Issued—73,206 shares | $ 7,320,600.00 | |
| 6% Authorized and Issued—53,366 shares | 5,336,600.00 | |
| 5% Authorized—193,959-1/10 shares; Issued—42,312-6/10 shares | 4,231,260.00 | |
| Common Stock without Par Value: Authorized—1,500,000 shares: Issued—806,624 shares (Note 4) | 9,795,648.13 | |
| Paid-in Surplus | 11,763,791.18 | |
| Earned Surplus | 12,955,407.94 | |
| | 51,403,307.25 | |
| Less 679 shares 7% Preferred, 1,188 shares 6% Preferred, 1,370-7/10 shares 5% Preferred and 65 shares of Common Stock in Treasury—at cost | 327,972.93 | 51,075,334.32 |
| Contingent Liabilities (Note 5) | | |
| Total | | $76,717,086.58 |

Note 1—The Current and Working Assets and Current Liabilities of the Subsidiaries in Canada (in which country exchange restrictions are in effect) are included in the foregoing Balance Sheet at 88.625 cents U. S. to the Canadian dollar, the approximate rate of exchange current at December 31, 1939. Fixed and other assets are included dollar for dollar in U. S. currency. On the foregoing basis the net equity of the Parent Company in these Subsidiaries at December 31, 1939 amounted to $9,694,562.89 consisting of Net Current and Working Assets, $5,472,156.43, and Fixed and Other Assets $4,222,406.46. The undistributed profits of the Canadian Subsidiaries since acquisition, included in the Earned Surplus amounted to $1,294,493.39.

Note 2—Debt Discount, Redemption Premium and Expense of a Debenture issue of $911,210.14, refunded from the proceeds of the Note issue now outstanding, together with expense of the Note issue, are being amortized over the life of the refunding notes, which is one year less than the life of the refunded issue.

Note 3—All Preferred Cumulative Stocks are redeemable on call and on voluntary or involuntary liquidation at a premium of $10.00 per share over par value an aggregate premium of $1,656,469.00 on Preferred Stocks outstanding, less in Treasury.

Note 4—After deducting 13,360 shares held in Treasury of which 10,000 shares are reserved to cover non-assignable options to the President of the Company exercisable until January 15, 1947 at $40.00 per share.

Note 5—Federal and Canadian Income Tax Returns for the years 1936 to 1938 inclusive are subject to final review. Lawsuits incidental to the Companies' operations are reasonably covered by insurance. Contracts in process for construction of plants and retail store buildings at December 31, 1939, not included in the foregoing statement, amount to $909,159.54.

## SAFEWAY STORES, INCORPORATED (a Maryland Corporation) AND SUBSIDIARIES

### Consolidated Profit and Loss Account for the Year ended December 31, 1939

| | | |
|---|---|---|
| Sales (Net) | | $385,882,083.00 |
| Cost of Sales | | 307,966,687.86 |
| **Gross Profit** | | 77,915,395.14 |
| Operating and Administration Expenses | $65,386,969.30 | |
| Provision for Depreciation | 3,741,382.31 | 69,128,351.61 |
| **Net Operating Profit** | | 8,787,043.53 |
| Other Income | | 32,116.70 |
| | | 8,819,160.23 |
| **Income Deductions:** | | |
| Debt Interest, Discount and Expense | 650,624.26 | |
| Other Income Deductions | 233,687.42 | 884,311.68 |
| | | 7,934,848.55 |
| Provision for Federal and Canadian Income Tax | | 1,666,488.10 |
| **Net Income (Note)** | | $ 6,268,360.45 |

Note—Provision of $649,989.34 for decline in conversion value of the Net Current Assets of the Canadian Subsidiaries has been charged to Earned Surplus.

The operations of the Canadian Subsidiaries are included in the foregoing statement (1) dollar for dollar in U. S. Currency for the nine months ended September 30, 1939 and (2) at 88.625 cents U. S. to the Canadian dollar for the three months ended December 31, 1939. Net income of the Canadian Subsidiaries for the year, on the foregoing basis, not realized by the Parent Company through dividends, amounted to $195,369.70.

## SAFEWAY STORES, INCORPORATED (a Maryland Corporation) AND SUBSIDIARIES

### Earned Surplus Account for the Year ended December 31, 1939

| | | |
|---|---|---|
| Balance as at December 31, 1938 | | $11,902,781.95 |
| Net Income for year ended December 31, 1939 | | 6,268,360.45 |
| | | 18,171,142.40 |
| **Deduct:** | | |
| Dividends on Preferred Stock—Cash | $ 936,075.75 | |
| Dividends on Common Stock: | | |
| Cash | 2,026,809.37 | |
| 5% Preferred Stock—at par | 1,602,860.00 | |
| | 4,565,745.12 | |
| Provision for decline in conversion value of Net Current Assets of Canadian Subsidiaries, less $20,027.26 provided through Profit and Loss Account | 649,989.34 | 5,215,734.46 |
| Balance as at December 31, 1939 | | $12,955,407.94 |

### Paid-in Surplus Account for the Year ended December 31, 1939

| | |
|---|---|
| Balance as at December 31, 1938 | 11,800,481.31 |
| Add Discount on Preferred Stocks retired | 26,809.87 |
| | 11,827,291.18 |
| Deduct Goodwill of Subsidiary acquired, written off | 63,500.00 |
| Balance as at December 31, 1939 | $11,763,791.18 |

To the Board of Directors,
Safeway Stores, Incorporated:

We have examined the Consolidated Balance Sheet of Safeway Stores, Incorporated (a Maryland Corporation) and subsidiary Companies as at December 31, 1939 and the Consolidated Profit and Loss and Surplus Accounts for the year ended on that date, have reviewed the system of internal control and the accounting procedures of the Companies and, without making a detailed audit of the transactions, have examined or tested accounting records and other supporting evidence, by methods and to the extent we deemed appropriate.

In our opinion the accompanying Consolidated Balance Sheet and related Consolidated Profit and Loss and Surplus Accounts present fairly the consolidated position of Safeway Stores, Incorporated and Subsidiary Companies at December 31, 1939 and the results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PEAT, MARWICK, MITCHELL & CO.

San Francisco, California,
February 28, 1940.

# Safeway Stores, Incorporated

(A Maryland Corporation)

## Executive Officers

| | |
|---|---|
| M. B. SKAGGS | Chairman of the Board |
| L. A. WARREN | President and Treasurer |
| LAWRENCE GILES | Vice-President and Controller |
| A. D. KIRKLAND | Vice-President |
| MILTON L. SELBY | Secretary |

## Directors

M. B. SKAGGS — LAWRENCE GILES

L. A. WARREN — MILTON L. SELBY

DRUMMOND WILDE

## Executive Offices

20 East 5th Street . . . . . Reno, Nevada

## Transfer Agent

The Chase National Bank of the City of New York . New York, N. Y.

## Registrar

City Bank Farmers Trust Company . . . . New York, N. Y.

## Auditors

Peat, Marwick, Mitchell & Co.